

Message Text

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FM AMEMBASSY SAIGON

TO SECSTATE WASHDC 9634

C O N F I D E N T I A L SAIGON 5621

AIDAC

E. O. 11652: GDS

SUBJECT: GVN IMPORT DEMAND AND FOREIGN EXCHANGE OUTLOOK

REFERENCES: (A) SAIGON 2918 (B) SAIGON 3761 (C) SAIGON 1700

(D) SAIGON 4388

1. SUMMARY- HIGHER THAN ANTICIPATED LEVEL OF IMPORT DEMAND DURING MARCH SUGGESTS THAT EARLIER PROJECTIONS OF FOREIGN EXCHANGE

RESERVES WERE OVERSTATED. MISSION NOW PROJECTING FOREIGN EXCHANGE

RESERVES AT \$200 MILLION AS OF JUNE 30.

2. GVN IMPORT DEMAND- ON BASIS BEST ESTIMATE GVN L/ C OPENINGS DURING MARCH TOTALLED \$23 MILLION, SLIGHTLY BELOW THE FEBRUARY TOTAL OF \$24.7 MILLION. L/ C OPENINGS DURING THE QUARTER AS A WHOLE WERE \$70 MILLION, REPRESENTING A LESS THAN NORMAL SEASONAL DROP FROM THE \$78 MILLION OF L/ C OPENINGS IN THE FOURTH QUARTER CY 72. THUS, LEVEL OF DEMAND HAS REMAINED VIRTUALLY UNCHANGED DESPITE THE GVN MEASURES TAKEN TO RESTRICT IMPORTS OF TEXTILES AND NON- ESSENTIAL GOODS BEGINNING ON FEB 19 (SEE REFS A & B).

L/ C OPENINGS FOR TEXTILES HAVE IN FACT BEEN NIL BEGINNING WITH THE TEMPORARY BAN ON TEXTILE IMPORTS ON FEB 19 AND EXTENDING THROUGH THE MARCH 3 MEASURES, WHICH PERMITTED THEIR RESUMPTION SUBJECT TO HIGHER TAX AND ADVANCE DEPOSIT RATES. DATA ON L/ C OPENINGS DURING MARCH 1-20 SHOWED \$6.3 MILLION FOR SUGAR AND \$2 MILLION FOR OTHER FOODSTUFFS, SOME OF WHICH UNDOUBTEDLY WERE SUBJECT TO MARCH 3 MEASURES. ALSO IN DEMAND THIS PERIOD WERE: PHARMACEUTICALS, \$2.5

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MILLION; MOTOR VEHICLE PARTS AND ACCESSORIES, \$1.8 MILLION; CHEMICALS, \$1.0 MILLION.

3. IMPORT PAYMENTS- L/ C OPENINGS DURING FEBRUARY- MARCH HAVE EXCEEDED PREVIOUS FORECASTS (REFS C & D) BY ABOUT \$10 MILLION, WHICH WARRANTS CORRESPONDING UPWARD REVISION OF IMPORT PAYMENTS FORECAST FOR JANUARY- JUNE. A FURTHER UPWARD REVISION IS WARRANTED BY INADVERTENT FAILURE TO INCLUDE SOME \$6 MILLION OF IMPORTS UNDER THE SUPPLIER CREDIT SYSTEM WITHIN THE PREVIOUSLY CALCULATED 4 TH QUARTER TOTAL FOR L/ C OPENINGS. NEW ESTIMATE OF FIRST HALF PAYMENTS, THEREFORE, IS \$136 MILLION, VS. \$120 MILLION, REF C.

4. FOREIGN EXCHANGE DATA- RBVN HAS JUST MADE AVAILABLE WIDE RANGE OF FINANCIAL DATA COVERING PERIOD FEB 1 - MAR 10. FOLLOWING SUMMARIZES AVAILABLE DATA COVERING RECEIPTS AND PAYMENTS OF FOREIGN EXCHANGE DURING PERIOD, JAN 1 - MAR 10. SECOND COLUMN PRESENTS DATA PROJECTED (ON STRAIGHT LINE BASIS) THROUGH JUNE, AND THIRD COLUMN COMPARES WITH MOST RECENT MISSION ESTIMATE FOR JAN- JUNE (PER REF D):

FOREIGN EXCHANGE DATA, JAN 1 - MAR 10
(\$ MILLIONS)

JAN 1 - MARCH 10

	AS REPORTED	AT HALF YEAR RATE	PREVIOUS FORECAST
			FOR JAN- JUNE
EXPORTS	8.4	22.8	18
INVISIBLE RECEIPTS	14.7	38.8	34
INVISIBLE PAYMENTS	15.5	40.9	32
AID FREIGHT	4.4(TO FEB 28)	13.2	18

5. NO BREAKDOWN IS AVAILABLE BY WHICH TO ASSESS THE APPARENT OVERRUNS IN BOTH INVISIBLE RECEIPTS AND INVISIBLE PAYMENTS. WITH REGARD TO LATTER, HOWEVER, WE UNDERSTAND HIGH FIGURE IS PARTLY ACCOUNTED FOR BY GVN PURCHASES IN ADVANCE OF THREE MONTHS' FOREIGN EXCHANGE REQUIREMENTS IN ORDER TAKE ADVANTAGE OF CURRENT EXCHANGE RATE LEVEL. THUS, WHILE INVISIBLE RECEIPTS AND PAYMENTS ARE BOTH AHEAD OF FORECAST, THE TRUE BALANCE BETWEEN THE TWO PROBABLY REMAINS ABOUT AS FORSEEN EARLIER. EXPORTS HAVE BEEN DOING EXTREMELY WELL, ALTHOUGH IT WOULD PROBABLY BE PREMATURE TO RAISE THE FORECAST AT THIS POINT. AID FREIGHT PAYMENTS HAVE CONTINUED AT THE 1972 RATE, BUT ARE CERTAIN TO PICK UP IN LINE WITH IN-

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CREASED PL 480 SHIPMENTS AND HIGHER FREIGHT CHARGES.

6. IN SHORT, WHILE ITEMS COVERED PARAS 4 AND 6 MAY VARY FROM FORECAST, THE NET EFFECT OF THESE CHANGES IS NOT YET CLEAR, EVEN AS TO ITS DIRECTION. AS NOTED, HOWEVER, IT APPEARS THAT IMPORT PAYMENTS FOR JAN- JUNE WILL BE ABOUT \$16 MILLION HIGHER THAN PROJECTED EARLIER. ACCORDINGLY, RESERVES, DEFINED AS GOLD, FOREIGN EXCHANGE, AND SDR'S ARE PROJECTED AT \$200 MILLION, DOWN FROM \$216 MILLION PROJECTED REF D.

7. BANK LENDING- NET LOANS TO THE PRIVATE SECTOR ROSE VN\$ 6 BILLION DURING FEB 1-24 TO VN\$ 102.6 BILLION OUTSTANDING, AT WHICH POINT LOANS WERE UP VN\$ 14 BILLION FOR YEAR- TO- DATE. TOGETHER WITH THE PICKUP IN IMPORT DEMAND (CIP, AS WELL AS GVN) , THIS IS INDICATIVE OF AT LEASE SOME IMPROVEMENT IN BUSINESS ACTIVITY. SEPTTEL WILL COMMENT ON NATURE OF THIS IMPORVEMENT. AS WELL AS ON CIP DEMAND SPECIFICALLY.
WHITEHOUSE

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